

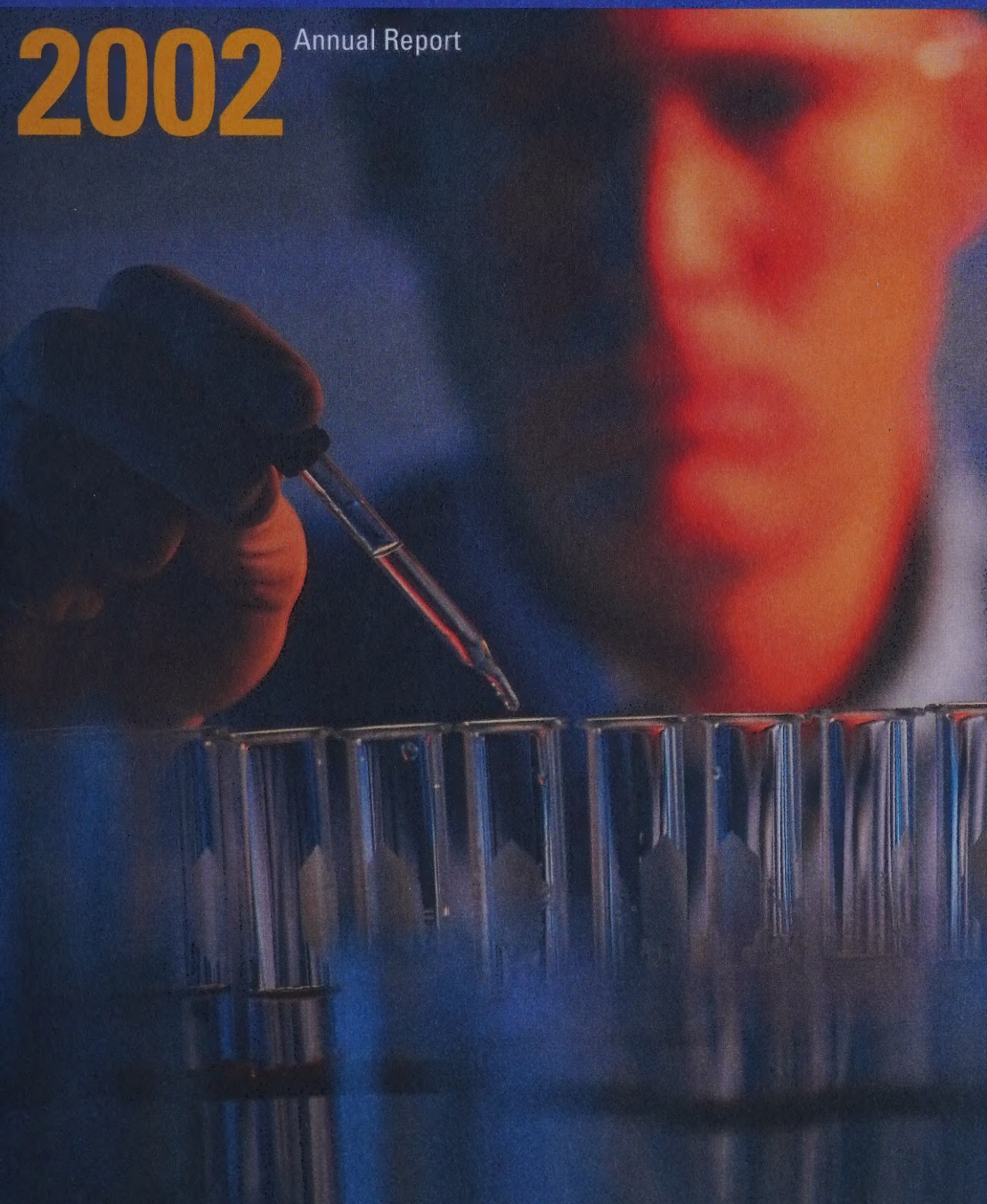
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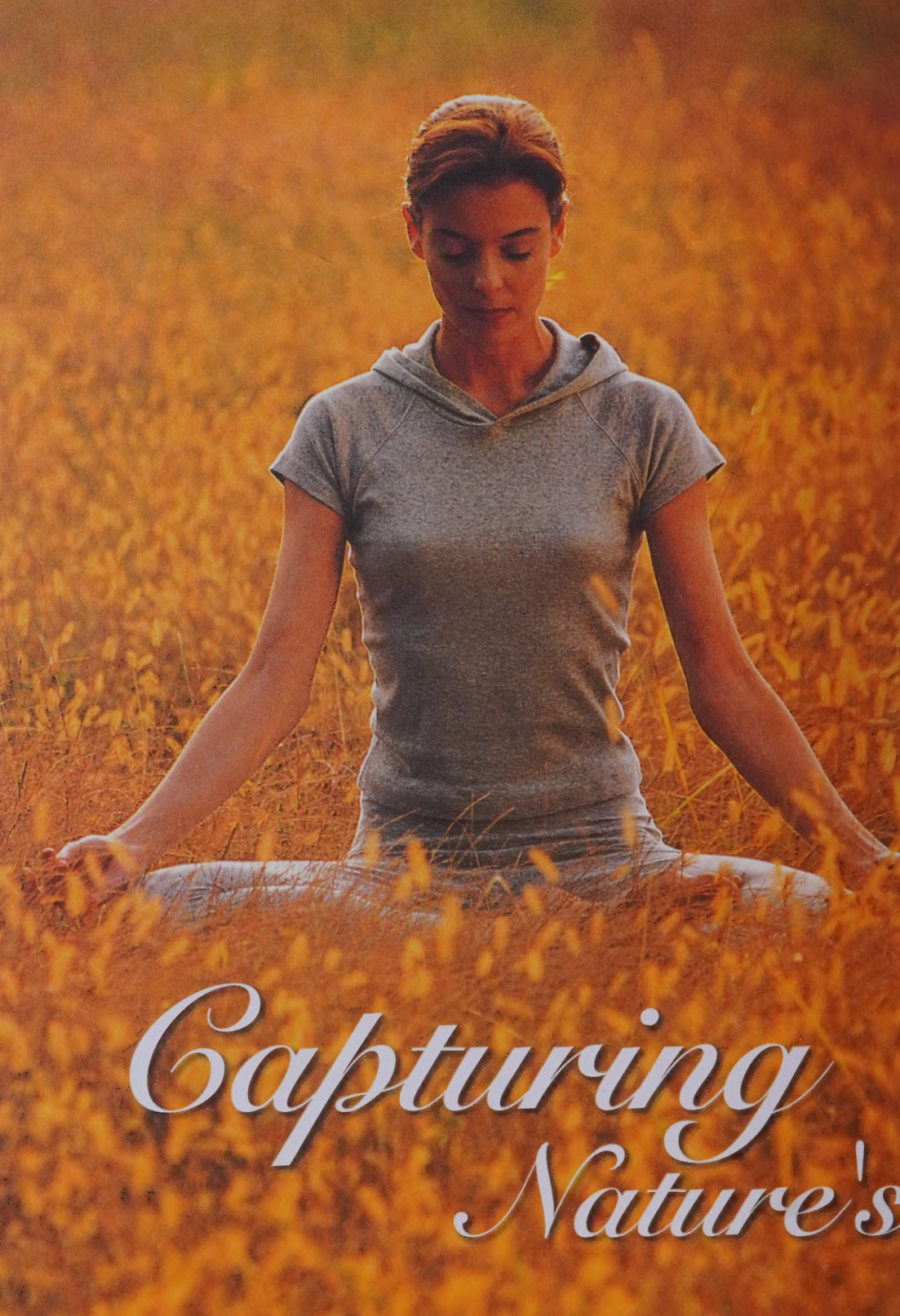
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CEAPRO
Nature Enhancing Life®

2002 Annual Report





*Capturing
Nature's*



*Ceapro is a
biotechnology company
that develops and
commercializes
products for the
human and animal
health industries using
proprietary technology
and natural,
renewable resources.*

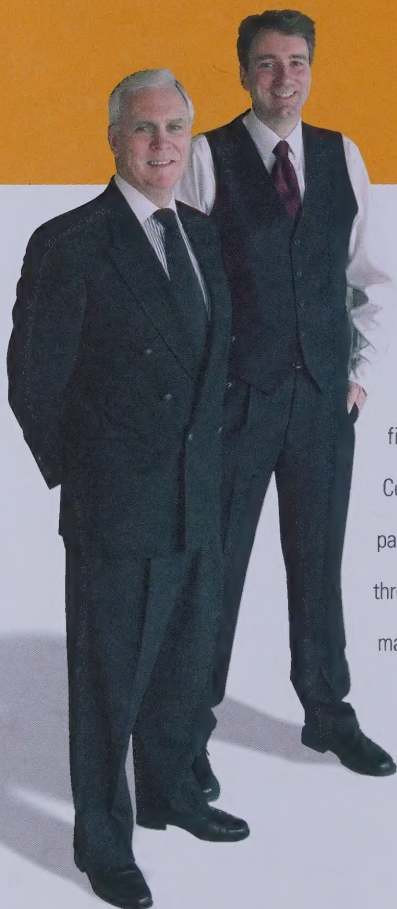
*Ceapro contributes
to a natural
and healthy life
balance using
the elements
of the earth
in its medical
and commercial
products.*

Vitality

 **CEAPRO**
Nature Enhancing Life®

Letter to the Shareholders

2002 The year in review



We are proud of Ceapro's accomplishments in 2002. This year proved to be pivotal for Ceapro in ways far greater than a financial turnaround. As an organization we discovered that Ceapro is truly more than technology and oats – it is about our passion for the work we do, and our ability to make a difference through our products. It is the people and their efforts that will make this good company great.

Progress

2002 was a breakthrough year for Ceapro with the Company achieving profitability and improving its business fundamentals. Ceapro worked to develop markets and advance technology, and as a result sales royalties and license revenue increased significantly. Ceapro entered 2003 with an improved financial position and a balance sheet that reflects a growing business.

Achievement

The Company succeeded in completing important milestones on its path towards building a profitable and dynamic biotechnology company. Ceapro completed the clinical testing of a new veterinary dermatological product, *Dermal Conditioning Complex*, scheduled for launch in the spring of 2003. We finished the pre-market launch activities of two new active ingredients for the

cosmetic and personal care market, *Ceapro Lipid Factors* and *Ceapro Defense Factors*, scheduled for launch in 2003. Ceapro also completed the pre-market production of *AccuScreen*, our diabetes diagnostic aid, with an expected introduction planned in 2003.

Strategic Priorities

Ceapro continues to build incrementally on the 'blueprint for growth' strategy unveiled in the 2001 annual report. This plan called for the expansion of markets for active ingredients into the personal care and cosmetic industries, the expansion of markets for the veterinary therapeutic products, and the advancement of new healthcare technologies.

*"The tenacity, dedication, and talent of the Ceapro team
are reflected in the year's successes and achievements."*

—Ed Taylor, Chairman

More specifically, in 2003 Ceapro intends to:

- Expand into the European and Japanese personal care markets
- Negotiate animal health distribution agreements
- Introduce the *AccuScreen* diabetes screening product in Canada
- Develop new products, technologies, and partnerships

Performance

Ceapro realized increased revenues through the strong growth of sales. The Japanese veterinary market rapidly accepted the new treatment for otitis (ear infections) and sales surpassed expectations. Nippon Zenyaku Kogyo, our Japanese distributor, has requested that the Company expand its product line to encompass treatments for other typical dermatological problems. The next product, *Dermal Conditioning Complex*, is scheduled for launch in Spring 2003.

Beta glucan sales increased by 370% as Schering Plough, a worldwide pharmaceutical company, introduced beta glucan into its sun care product line. Sales of colloidal oat extract were steady and 2002 saw the introduction of new brand-name products using the extract, including baby wipes and extensions to the *Aveeno®* product line.

Licensing products is a cornerstone of Ceapro's product distribution strategy. Creating the right partnership is challenging, yet rewarding, as demonstrated by our relationships with Symrise, Vet Business, Daisen Sangyo and Nippon Zenyaku Kogyo. We have been disappointed with the difficulties experienced when forging alliances to distribute animal health products to other countries. Initial concerns dealt primarily with the small number of products that we offered to veterinarians, however, with today's expanded line of products we believe we have overcome this issue and expect new partnerships in 2003.

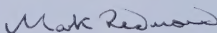
Assets

Ceapro's product pipeline is full! The Company is in an excellent position to take advantage of business opportunities developed by its investment in innovative technology and in patents. The intellectual property on which Ceapro was founded in 1997 remains in-force and will be the foundation for product activities in 2003. Ceapro added to its patent portfolio in 2002 with patent applications filed on beta glucan drug-delivery technology. We expect this exciting new technology to deliver benefits and further growth opportunities to the Company.

An integral part of Ceapro's intellectual capital is its employees. Ceapro's principals have guided the Company through the transition period of 1999 through 2002 and are dedicated to efforts that will lead the Company through its next stage of growth.

Ceapro's Board, in addition to representing shareholders, is committed to working actively with Management to guide the Company to its full potential. Our Directors are entrepreneurs who have taken companies from start-up to success in the fields of biotechnology, finance, and engineering.

The tenacity, dedication, and talent of the Ceapro team are reflected in the successes and achievements described in this report. We thank the Staff, Management, and the Board for their hard work during the year and thank our shareholders and partners for their continued support.



Mark J. Redmond, Ph.D
Chief Operating Officer
Chief Scientific Officer



Edward A. Taylor,
Chairman



Operational Overview

*Ceapro will
be a
leader in
developing and
commercializing
products for
the human
and animal
health market
through
the use of
proprietary
technology and
renewable
resources.*

In 2001, Jim Collins' book entitled *Good to Great* determined that in order to make the transition from competence to excellence a company needs the right people and a sound mission. A significant step in Ceapro's transition from 1999 to 2002 was in our understanding of how Ceapro could become a truly great company.

In our planning sessions we asked ourselves three questions:

1. What is the Company and its people really passionate about?

Our answer came in four parts:

- a. Enhancing the health of humans and animals
- b. Discovering and commercializing new, natural ingredients
- c. Producing the highest quality work possible in products, science, and business
- d. Developing personnel through guidance, opportunities, and encouragement

These are Ceapro's core values.

2. What can Ceapro be best in the world at?

Ceapro will be a leader in developing and commercializing products for the human and animal health market through the use of proprietary technology and renewable resources.

This is Ceapro's mission.

3. How will Ceapro be profitable?

Ceapro's profits will come by commercializing proprietary technology and selling products that yield sufficient profits to reward shareholders, and will continue to grow through the development of the product pipeline.

Simply: our product will have margins of greater than 45%.

This is Ceapro's economic engine.

Management is aware that we have each grown to fill a far greater role in building the Company. The growth of individuals and the realization of their potential gives the Company the fundamentals of time and succession that we believe are essential in making Ceapro a great company.



Ceapro's vision is to enhance the health and well-being of humans and animals using natural medical products. The vision is fulfilled through the Company acting as innovator, advanced processor, and formulator in the development of new healthcare products. We deliver our technology to the market through partnerships.

Our core technology is divided into two parts:

- Extraction of active ingredients from plants
- Design, formulation, and production of functional products and medicines

Extraction Technology and Processes

Ceapro's extraction technology is derived from the science used to make human medicine and vaccines. This "high-technology" approach used to isolate and formulate natural products when linked to quality assurance and quality control methods, chemical finger-printing, and bio-assays, yields plant extracts of the highest standards and gives Ceapro active ingredients a distinctive market advantage.

Design, Formulation, and Medical Expertise

Specialized expertise is essential in understanding how specific ailments or health-related problems may be treated. Intimate knowledge of the function of our extracts is applied and integrated with other materials to produce innovative health solutions.

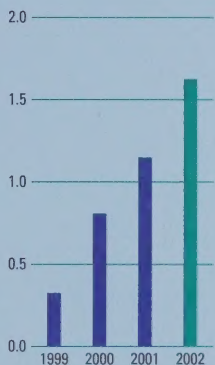
Ceapro's scientific team has broad expertise ranging from natural product chemistry to microbiology, biochemistry to immunology, and human to veterinary medicine. These skills merge in the characterization of the function of natural, active ingredients, and in therapeutic product design and testing.

Partnerships

Ceapro gains access to global markets through its partners. Ceapro works hard to integrate its technological expertise with its partners' dedicated sales forces to provide customers with a unique technical background and support for product utilization.

Revenue

(\$ million)

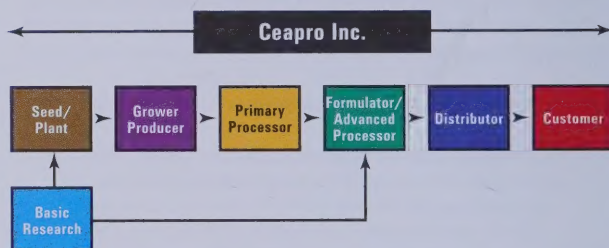


In 2002, Ceapro increased emphasis on the technical support of distributors and their customers. This enhanced marketing activity provides customers with an insider's view of Ceapro's technology and product benefits. As a result, the demand for materials has increased dramatically and we are optimistic that Ceapro's active ingredients will be incorporated in new and innovative products in 2003.



Ceapro's Partnerships

Ceapro's Vertically Integrated Organization



Ceapro is a vertically integrated organization.

While the Company functions as the innovator, advanced processor, and formulator, it also participates in partnerships ranging from discovery research to customer sales and service.



Symrise

Symrise is a partner in distribution to the personal care industry. In 2002, Dragoco Gerberding and Haarmann and Reimer merged to form Symrise, a new global leader in the fields of cosmetic ingredients, fragrances, and flavours. Inspired by nature, and optimized by cutting edge technology, Symrise's products represent a harmonious symbiosis between nature and science. Its combined sales are estimated at 15 billion Euros. Symrise is a global leader in the market of speciality cosmetic ingredients, focussing on high-value sunscreens, active ingredients, and plant extracts.



Semundo

Semundo is a partner in the development of new grain varieties using natural selection and improved agronomic practices.



"Semundo's goal is to improve crop value and uptake through innovation, knowledge, and collaboration. We achieve our goal through alliances with diverse and compatible companies, such as Ceapro, who pool and share specific skills and disciplines to improve and capture opportunities."

Chris Green, Managing Director
Semundo

"The innovative active ingredients and the scientific support of Ceapro are an ideal fit into Symrise's product portfolio. We expect substantial growth over the next years with these products."

Dr. Klaus Stanzl
President Cosmetics
Symrise Inc.



Global Reach

Through our strong partnerships we access global markets for sales and tap into scientific resources in leading research centers for product development.

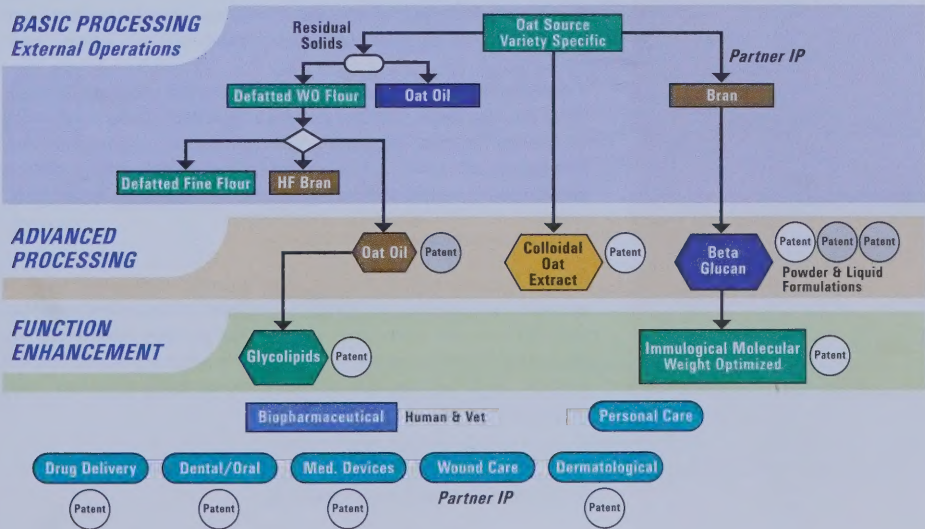
Edmonton, New York, Hamburg, Singapore, Rio de Janeiro, Green Bay, Osaka, Sydney, London, Helsinki, Stockholm, and Aberystwyth.


Intellectual Capital

Ceapro has a portfolio of patents, trade-secrets, and trademarks. Our technology includes intellectual property developed by Ceapro staff or licensed to the Company from outside organizations. Ceapro's patent portfolio can be divided into two fields:

- Process Patents – comprising Ceapro's Core Technology
- Composition and Method of Use Patents – comprising Ceapro Active Ingredients, Therapeutic Products, and Diagnostic Products

Proprietary Technology Breakdown





Active Ingredients

Active Ingredients

Ceapro manufactures a proprietary range of active ingredients extracted from oats (*Avena sativa*).

The United States Food and Drug Administration (FDA) describes an active ingredient as any component of a product intended to furnish therapeutic activity or other direct effect in the diagnosis, treatment or prevention of disease. Therapeutic activity refers to the successful prevention, diagnosis and treatment of physical and mental illnesses, and improvement of symptoms of illnesses as well as the beneficial alteration or regulation of the physical and mental status of the body.

The FDA's Federal Register reports that colloidal oatmeal falls within the Topical Analgesic Panel's definition of a skin protectant and further states that the occlusive film barrier that colloidal oatmeal leaves behind is helpful in protecting the skin against irritation and in soothing irritated (or pruritic) skin conditions. Based on these findings the following claim for colloidal oatmeal is allowed: "for prompt, temporary relief of itchy, sore, sensitive skin due to rashes, diaper rash, poison ivy, poison oak or sumac, eczema, psoriasis, sunburn, chicken pox, prickly heat, and hives."

The Benefits of Oats

The therapeutic benefits of oats in skin care have been common knowledge since ancient times. Hanging a bag of oatmeal in bath water will calm one's skin; a facial mask of oatmeal has a purifying effect. Despite this, oatmeal is a substance that is difficult to process for cosmetic purposes. It is insoluble, does not remain stable, and separates in mixtures. Ceapro's scientists found a way to resolve this problem by identifying the bioactive substances in oats.

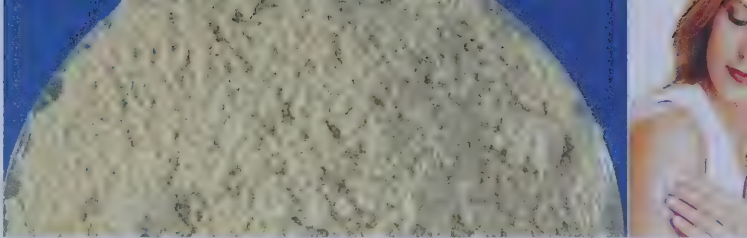
A chemical analysis of oats shows a complex structure of over 1000 components. By using unique patented separation technology, Ceapro succeeded in isolating the most important active ingredients – avenanthramides, beta glucan, and lipids – and conducted the necessary tests to confirm the therapeutic benefits of these substances.

Avenanthramides

Avenanthramides are among the most powerful compounds used in cosmetics, and even when diluted to one-millionth of their original strength, they still have anti-irritant, skin calming, and soothing effects. With its guaranteed content of avenanthramides as the active ingredient, Ceapro's *Colloidal Oat Extract* and *Defense Factors* reduce itching and inflammation and are well-suited for sensitive skin.

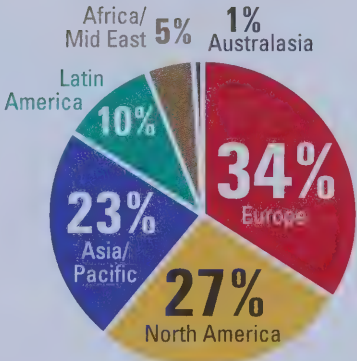
*In 2002
active ingredient
sales grew
at an average
rate of 250%
a year and
continue to
gain acceptance
from leaders
in the
cosmetic industry.*

Ceapro Technology produces active ingredients in an efficient manner to maintain pricing at an attractive level while producing margins greater than 50%.



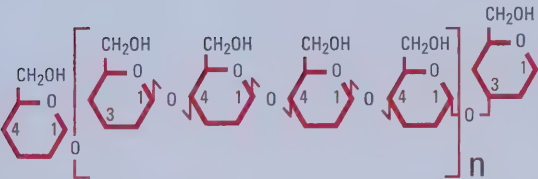
Cosmetics Markets

In 2002, Ceapro's sales to the cosmetic and personal care industries were principally to North American customers. The most rapid increase in sales is expected to result from enhanced activities in Europe and Japan, and in 2003 Ceapro is dedicating more resources to these markets.



Beta glucan

By isolating beta glucan from oats, Ceapro has succeeded in developing a substance highly effective against tissue damage. The Company's beta glucan stimulates the skin's natural defense mechanisms, supports the regeneration of damaged cells, and stimulates the formation of collagen. Beta glucan promotes healing, slows down the signs of skin aging, and produces a smooth skin with improved elasticity. In 2002, cosmetic products containing oat beta glucan carried labels stating "reduces fine lines and wrinkles." This is a marketing first.



Oat Beta Glucan Structure

We know there is a strong market for our products since in a recent Symrise survey seventy percent of people screened complained about sensitive skin and were concerned about UV irradiation, increasing pollution, and dry air stress. In addition, shaving and depilation irritate the skin and cause an increasing demand for products with calming effects.

Ceapro's active ingredients can be used in numerous excellent formulations: after-sun and suntan lotions, shampoos and hair care products, hand lotions, moisturizers, creams for the areas around the eyes, balms for dry and brittle skin, aftershave and other shaving products, face and body lotions, regenerative creams for irritated or mature skin, and baby care products.

Working closely with the Symrise marketing team, we have developed an understanding of the new product direction of the cosmetics and personal care markets and, perhaps more importantly, definition of the cost to performance ratios. We responded to this direction by developing new active ingredients that enhance the key attributes of our products. As a result, we will expand our product range in 2003 to include Ceapro *Lipid Factors* and Ceapro *Defense Factors*.



Therapeutic Products

"Skin-related problems are on the very top of the list of reasons for visits to the veterinarian. Pet owners are asking for natural therapies that are effective and safe over the long term and the Ceapro line of current and future products will play an important role in fulfilling these requirements."

Dr. Berney Pukay,
D.V.M., Ph.D.

*Whether to
maintain healthy
skin and haircoats
or to treat existing
skin diseases,
dermatological
therapies are
traditionally
on-going and
often life-long.*

Veterinary Health Products

Ceapro has developed a complete line of dermatological products for companion animals. Each product uses the functionality and therapeutic benefits of Ceapro's active ingredients to provide relief from skin irritation and maintain health. The scientific evidence achieved through clinical trials suggests that Ceapro's products provide benefits that are significantly ahead of any other product on the market today. Clinical trials conducted in both Canada and Japan show equally positive results.

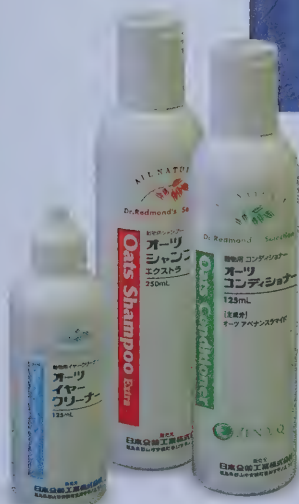
The companion animal sector of the global veterinary health market is valued at approximately US \$43 billion and is growing at a steady rate of 10% per annum. This sector represents approximately 20% of the total animal health market and it is expected that within the next five years, this sector will account for over 33% of the total animal health revenues and over 50% of the profits. This sector growth has been occurring through new product innovation and advances in veterinary medicine, which mirror human medicine and consumer spending preferences in developed countries.

The United States leads the world in pet popularity and population with 141 million dogs and cats. According to industry figures, atopic dermatitis afflicts up to 15% of the canine population representing more than 10 million dogs in the United States. A sub-section of atypical dermatitis is pruritis. The total 2002 US topical 'pruritics' market was valued at \$28 million (this number does not include the preventative and maintenance product market).

The prescriptive market for allergic dermatitis is \$10M and is expected to grow to \$20M by 2006. It is estimated that 5 – 10% of the dog population in the United States are candidates for treatments that are predominantly oral and injectable steroids. Ceapro's colloidal oat extract with demonstrable histamine inhibition is an ideal product to use as a novel alternative to steroids.

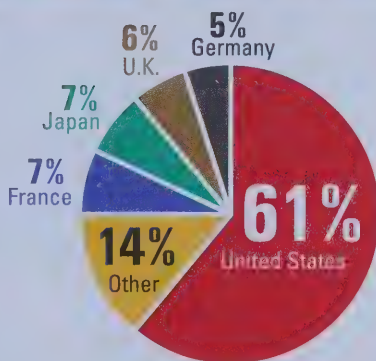


Ceapro is evaluating the veterinary application of beta glucan wound care products. The wound care products were developed by Brennen Medical (St. Paul MN) for use in the treatment of human burns and the treatment of skin-loss injuries.



Animal Health Markets

The success in animal health sales to Japan represents access to only about 7% of the global market potential. The significant size of the United States market dictates that Ceapro invests in developing this market as a priority.



Oat Shampoo

The combination skin gel, coat shampoo, and conditioner is unique in its ability to deliver supernormal levels of oat beta glucan hydrocolloid and active extracts. Oat shampoo is a soap-free, hypo-allergenic cleansing gel used to treat the problem, then to maintain healthy skin and a shiny coat. In Japan oat shampoo is marketed under the brand of *Dr. Redmond's Selection*, in Canada *DermaCoat*, and in Australia *NaturOat*.

Ear Cleanser

A gentle and effective cleanser containing oat active extracts to reduce redness and itching associated with otic (ear) irritation and otitis (ear infection).

Dermal Conditioning Complex

Delivered through a spray, *Dermal Conditioning Complex* consists of a base that is formulated to represent the natural moisturizing factor of the skin and is coupled with the anti-irritant and antihistaminic effects of colloidal oat extract.

Wound Care

The next series of veterinary products, currently in pre-clinical studies, is a range of wound dressings based on beta glucan technology. Scientists consider beta glucan an exceptional biological response modifier which stimulates the immune system and enhances tissue and collagen growth.

We expect the wound dressings to have a profound effect on the healing of incisions, abrasions, ulcers, lacerations, chronic wounds, and the treatment of burns. This new product series should be introduced to our animal health partners in 2003.

The successful penetration of the Japanese market allowed Ceapro to gain valuable insight into market delivery ensuring the products most effectively meet customer expectations, and that product advantages are successfully communicated to veterinarians and pet owners. This knowledge is the foundation of our current corporate strategy to secure effective marketing partners in the rest of the world.

Diabetes Diagnostics

Diabetes: A Global Epidemic

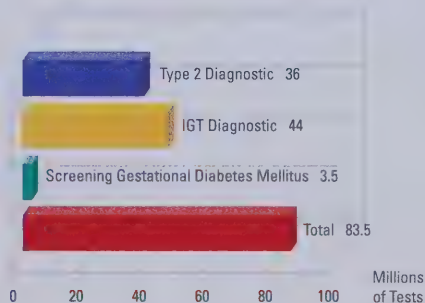
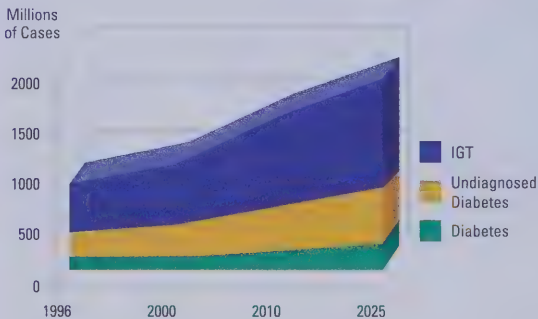
The World Health Organization estimates that by 2025 there will be 300 million diabetics globally. In 2003, there are 18 million diabetics in North America and approximately 2.2 million diabetics in Canada. Of these, only half have been diagnosed with diabetes. Not only do the current diabetes screening tests misdiagnose approximately 50% of patients, but they are unable to detect the pre-diabetic state of Impaired Glucose Tolerance (IGT).

IGT may be present for 5-10 years before diabetes is detected. During this period, significant damage can occur to the kidneys, retina, nerves, and possibly memory, due to elevated levels of circulating blood glucose.

"There is increasing awareness that the early and accurate diagnosis of diabetes is a necessity. Statistics from 1994 indicate that 83.5 million diabetes tests were conducted in North America; since that time the number of diabetics has doubled and the demand for testing will have increased similarly. With the global diabetes problem escalating, the ramp-up of AccuScreen really could not have had better timing."

Diana Shaw, Ph.D.

Manager, Business Development





*AccuScreen
detects diabetes
at the pre-clinical
disease stage
allowing for
control measures
to be implemented
immediately.*

AccuScreen

Ceapro has dedicated time and resources over a number of years to develop *AccuScreen*, a diabetes-screening product used as a diagnostic aid for the detection of type 2 diabetes and impaired glucose tolerance. *AccuScreen* is a physiologically normal meal replacement containing proteins and fats, as well as complex carbohydrates (glucose). Redesign of the *AccuScreen* formulation has ensured a reproducible, palatable, and stable product. This new formulation is patent pending.

AccuScreen requires the patient to fast overnight, before consuming the biscuits. *AccuScreen* needs one blood sample or finger prick prior to the meal and one an hour after consumption. Either medical professionals or home users may conduct the test.

AccuScreen has the following advantages:

- fast and efficient; test completed within 1 hour
- no repeat testing necessary
- has an 85% detection accuracy
- no risk of diabetic shock
- palatable with little or no nausea

Clinical Validation

Clinical introductory trials of commercially produced *AccuScreen* have been organized for Spring 2003 to confirm performance superior to previous versions of the product. A final study will establish the blood glucose levels equivalent to the diagnosis of normal, IGT, or diabetes. *AccuScreen* is to be introduced in late 2003, with full commercial production coming into effect in 2004.

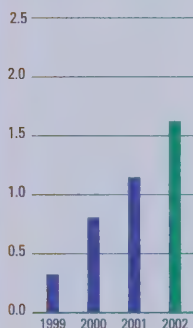
Financial Highlights

Achievements

- Increased sales, royalties, and license revenues by 30%, 42%, and 41% respectively over the last three years
- Improved gross margin from 35% to 50% in the current year
- First-ever profits reported in the second, third, and fourth quarters of 2002
- Achieved an overall profit in the current fiscal year

Revenue

(\$ million)



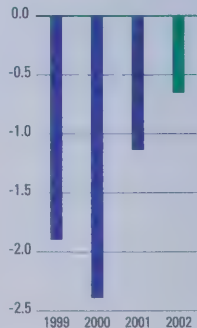
Income (loss)

(\$ million)

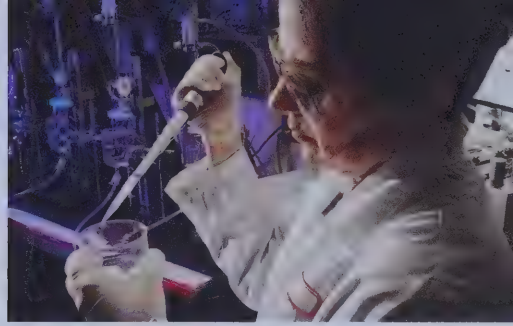


Shareholders' Deficit

(\$ million)



2002 was a breakthrough year for Ceapro, with the Company improving its business fundamentals. Sales, royalties, and license revenues increased and the Company achieved its first profitable year.



Summary of Financial Information

	1999	2000	2001	2002
Operations				
Product sales	\$ 326,373	\$ 808,854	\$ 1,149,443	\$ 1,511,512
Royalty and license revenues	298,000			114,739
	624,373	808,854	1,149,443	1,626,251
Income (loss) from operations	(407,851)	(609,549)	(617,736)	(59,106)
Research and new product development expenses	278,564	293,428	205,887	259,061
Other income (expenses)	(182,655)	(12,918)	477,520	433,941
Income (loss) for the year	(869,070)	(915,895)	(346,103)	115,774
Cash flow				
Cash flow (used in) operations	(306,678)	(759,412)	(728,253)	(102,719)
Cash flow (used for) investing	(31,667)	(30,563)	(11,411)	(196,341)
Cash flow from financing activities	355,036	803,631	752,795	273,645
Increase (decrease) in cash	16,691	13,656	13,131	(25,415)
Financial position				
Current assets	167,414	180,570	272,589	371,836
Total assets	291,341	294,148	373,326	645,347
Working capital (deficiency)	(1,942,106)	(2,031,097)	(351,404)	(250,508)
Shareholders' equity (deficit)	\$ (1,897,833)	\$ (2,390,977)	\$ (1,137,304)	\$ (652,969)



Information For Investors

Directors

Edward Taylor, Chairman
Donald Byers
David Harvey
Donald Oborowsky
John Yewchuk
John Zupancic

Executive Officer

Mark J. Redmond, Ph.D.
Chief Operating Officer and
Chief Scientific Officer

Head Office

4046 RTF University of Alberta
8308 - 114 Street, Edmonton, Alberta T6G 2E1
Tel: (780) 421-4555
Fax: (780) 421-1320
Website: www.ceapro.com
E-mail: info@ceapro.com

Registered Office

2900 Manulife Place
10180 - 101 Street, Edmonton, Alberta T5J 3V5

Auditors

Stout & Company LLP
1900 College Plaza
8215 - 112 Street, Edmonton, Alberta T6G 2C8

Corporate Counsel

Fraser Milner Casgrain LLP
2900 Manulife Place
10180 - 101 Street, Edmonton, Alberta T5J 3V5

Securities Counsel

Bryan & Company
2600 Manulife Place
10180 - 101 Street, Edmonton, Alberta T5J 3Y2

Chartered Bank

TD Canada Trust
148 Edmonton Centre
10205 - 101 Street, Edmonton, Alberta T5J 2Y8

Management's Discussion and Analysis

Description of Business

Ceapro Inc. ("Ceapro" or the "Company") is incorporated under the Canadian Business Corporations Act. The Company's primary business activities relate to the marketing and development of various innovative health and wellness products and technology relating to oat extracts. Ceapro is a biotechnology company that uses proprietary technology and renewable natural resources to make products for the human and animal health industries. Ceapro is committed to enhancing the health and well-being of humans and animals using natural medicinal products.

Ceapro markets products that include the active ingredients beta glucan and colloidal oat extract, and veterinary therapeutic products for dermatitis and otitis. Other products and technology are in development and include a diabetes screening test and a drug-delivery platform. To fund its operations, Ceapro relies upon revenues generated from the sale of active ingredients and therapeutic products, and the proceeds of public and private offerings of equity securities and debentures.

Business Strategy

Ceapro's business strategy directs the Company to:

- Increase sales and expand markets for active ingredients
- Market and develop high-value proprietary therapeutic products
- Advance new technology and form partnerships

expenses in the areas of sales and marketing and research and product development.

For the last eighteen months, Management has focused on increasing sales and improving gross margins to bring the Company into a profitable position. The results for 2002 mark significant progress and achievement. The second quarter of 2002 was the first profitable quarter in the Company's history; profits were earned for three consecutive quarters, and Ceapro reported a profit for the full fiscal year.

Highlights of Operations and Financial Condition – Year Ended December 31, 2002 and 2001

Ceapro's income for the year ended December 31, 2002 increased by \$462,000 (from a loss of \$346,000 to a profit of \$116,000) over last year. This significant turnaround was achieved by increases in product sales and gross margins, royalties and license revenues, and decreases in general and administrative and interest expenses, but partially offset by increased

Revenue – Year ended December 31, 2002 and 2001

Sales, royalty, and license revenues for the year ended December 31, 2002 of \$1,626,000 increased by \$477,000 or 42% over last year. During the year, \$115,000 of royalties were generated from the sale of the Canadian commercial rights to *Lipsorex*® to CanDerm Pharma and from a termination payment received by the Company from Ultravena Industries Ltd. who were not able to meet the

purchase terms of the 2001 Supply Agreement for *Oat Starch*.

The gross margin of \$757,000 increased by \$351,000 or 86% and the total margin of \$872,000 increased by \$466,000 or 114%. This increase is a direct result of the increase in product sales and licensing revenues. The gross margin percentage improved by 15% to 50% reflecting production efficiencies related to the higher volume of sales and an increase in the size of individual orders being placed by customers.

Expenses – Year ended December 31, 2002 and 2001

Research and product development

Research and product development expenses of \$259,000 increased by \$53,000 or 26%. The year ended December, 2001 included the recovery of research and development expenses of \$36,000, whereas only \$13,000 was recovered in 2002. Research and product development costs (before recoveries) were \$272,000 vs. \$242,000 for the years ended December 31, 2002 and 2001, respectively. During the year, the Company succeeded in completing milestones for the clinical testing of a new veterinary dermatological product scheduled for launch in the spring of 2003, finished pre-market launch activities for the two new active ingredients *Lipid Factor* and *Defense Factor*, and effected the pre-market production of *AccuScreen*, our diabetes diagnostic aid, with an expected introduction planned for late 2003.

Sales and Marketing

Sales and marketing expenses of \$246,000 for the year ended December 31, 2002 increased by \$55,000 or 29% largely due to an increase in time and effort working directly with customers on existing and new product sales along with increases in royalties payable to AVAC on higher product sales.

General and administrative

General and administrative expenses of \$569,000 for the year ended December 31, 2002 decreased by \$115,000 or 17% largely due

to a significant decrease in overall salary and benefits expenses that resulted from a reduction in Senior Management personnel, a reduction of computer systems and software costs, partially offset by significant increases in Product Liability and Directors' and Officers' insurance costs. Interest on convertible debentures and long-term debt decreased by \$31,000 or 26% due to the decrease in the balance of convertible debenture and long-term debt outstanding throughout the period.

Liquidity and Capital Resources – Year ended December 31, 2002 and 2001

Ceapro relies upon revenues generated from the sale of active ingredients and therapeutic products, and the proceeds of public and private offerings of equity securities and debentures to support its operations.

During the year ended December 31, 2002, \$384,441 of previously issued convertible debentures were converted to 2,419,736 common shares and 431,250 options were exercised at various prices. The amount credited to share capital upon exercise of the options is the fair value of the options at the time of issue (stock-based compensation). Total common shares issued and outstanding as at December 31, 2002 were 32,211,108 (2001 - 29,360,122).

The Company's working capital deficiency decreased by \$101,000 or 29% during the year. The Company continues to pursue additional financings to fund the existing working capital deficit of \$251,000 and to secure the financial resources required to support the expected significant increases in the volume of sales of existing products, the introduction of new products to existing and new markets, and the development of new technology.

To meet future requirements, the Company intends to raise additional cash through some or all of the following methods: public or private equity or debt financing, capital leases, and collaborative and licensing agreements.

However, there is no assurance of obtaining additional financing through these arrangements on acceptable terms, if at all. The ability to generate new cash will depend on external factors, many beyond the control of the Company, as outlined in the section below. Should sufficient capital not be raised, the Company may have to delay, reduce the scope of, eliminate, or divest one or more of its discovery, research, or development technology or programs, any of which could impair the value of the business.

Legal Proceedings

On March 22, 2002, Ceapro filed an amended Statement of Claim in the Court of Queen's Bench of Saskatchewan against the Government of Saskatchewan, Saskatchewan Government Growth Fund Management Corporation, Garry K. Benson, Janice MacKinnon, Can-Oat Milling Products Inc., the Saskatchewan Opportunities Corporation, Crown Life, and Crown Capital Partners Inc. ("SGGF et al."). The action was launched to recover damages with respect to assets claimed to be wrongfully seized as a result of the Defendant's actions in 1998.

With the filing in Saskatchewan Ceapro stayed its action in the Court of Queen's Bench of Alberta. This action was originally filed in December 1999.

On March 1, 2002 Ceapro received notice of a Statement of Claim filed on February 28, 2001 by a former employee. The Statement of Claim alleges that Ceapro breached certain conditions of contracts between the former employee and the Company.

Default under Debt and Contractual Obligations

At December 31, 2002 the Company was in arrears on the payment of interest on Debenture Series I through V in the amount of \$41,378 (2001 - \$11,210). Ceapro expects to remedy this default as additional financings are completed.

Risks and Uncertainties

Biotechnology companies in the development stage are subject to a number of risks and uncertainties inherent in the development of any new technology. General business risks include: uncertainty in product development and related clinical trials and validation studies, the regulatory environment, including delays or denial of approvals to market the Company's products, the impact of technological change and competing technologies, the ability to protect and enforce the Company's patent portfolio and intellectual property assets, the ability to manufacture oat extracts and formulations in sufficient quantities for clinical trials and market seeding, the availability of capital to finance continued and new product development, the ability to secure strategic partners for late stage development, marketing, and distribution of the Company's products. To the extent possible, Management pursues and implements strategies to reduce or mitigate the risks associated with the Company's business.

Interest rate risk is the exposure of interest revenue and expense to rate fluctuation; inflation risk is loss of purchasing power due to rising prices. Economic forecasts project a stable outlook for both interest rates and inflation in the near future; hence, these risks are expected to be negligible. Furthermore, the Company's convertible debentures and lease commitments have fixed interest rates over the terms of the obligations.

Ceapro's share price is subject to equity market price risk, which may result in significant speculation and volatility of trading due to the uncertainty inherent in the Company's business and the biotechnology industry. Due to the current share price, there is a risk that future issuance of common shares may result in material dilution of share value, which may lead to further decline in share price. Finally, the expectations of securities analysts and major investors about the Company's financial or scientific results, the timing of such results and future prospects, could also have a

significant effect on the future trading price of the Company's shares.

Financings, Principal Purposes, and Milestones

During the year ended December 31, 2002 the Company received \$210,000 (2001 - \$120,000) from the sale of an interest in the net proceeds, if any, from the aforementioned legal proceedings with SGGF et al. This amount is included in the Company's other income. In addition, a Director of the Company committed to fund up to \$250,000 of legal expenses directly related to this lawsuit in return for a proportionate interest in the net proceeds. During the year, \$96,725 (2001 - \$nil) of this commitment was received to fund legal expenses.

During the year ended December 31, 2002 the Company earned \$172,401 representing the sale of a 1.724% royalty interest in the Company's future sales and licensing of oat based active ingredients and animal health products. Maximum royalties payable are two times the original investment or \$344,802 (representing an interest in future sales and licensing of \$20,000,000). Income from this private placement is included in the Company's other income.

On December 31, 2002 Ceapro Inc. transferred its AccuScreen business and technology to Ceapro Technologies Inc., a newly incorporated wholly owned subsidiary company. The transfer was made under the provisions of Section 85(1) of the Income Tax Act. The transfer resulted in the realization of a taxable capital gain of approximately \$3.5 million which was eliminated by the utilization of non-capital losses which were available for carry forward from previous years. The consolidated financial statements include a provision, and offsetting recovery, of income taxes of \$1.4 million relating to this transaction.

Outlook

Ceapro entered 2002 with a portfolio of patented technology, a healthy product pipeline, and growing revenues from a base of product sales to the wellness (personal care and cosmetics) and animal health industries. Long-term licenses and/or formal agreements support our sales, product supply, and collaborative research initiatives.

Ceapro's strategic focus over the next three years is to increase sales and expand markets for active ingredients, to market and develop additional high-value proprietary therapeutic products, and to advance new technology to a partnering position. As a knowledge-based enterprise we will also expand and strengthen our patent portfolio, and build the necessary manufacturing infrastructure to become a global biotechnology company. To support these objectives, Management believes that it has the requisite resources (intellectual and human capital) and the competitive advantages (partnerships) to exploit its technology. If Ceapro is to realize its vision to become a profitable biotechnology company, its success will depend largely on its employees' creative talents and the prudent commercialization of its intellectual property.

A variety of factors will affect Ceapro's future growth and operating results, including the strength and demand for the Company's products, the extent of competition in the areas of operation, the ability to recruit and retain qualified personnel, and the Company's ability to raise capital.

Management intends to implement Ceapro's strategic goals and operating plans in a measured and responsible manner. Operating results are expected to improve and Management remains committed to its goal of delivering value to the shareholder.

Management and Auditors' Reports

MANAGEMENT'S REPORT

To the Shareholders of CEAPRO INC.

The accompanying consolidated financial statements of Ceapro Inc., and all information presented in this annual report, are the responsibility of Management and have been approved by the Board of Directors. The financial statements have been prepared by Management in accordance with Canadian generally accepted accounting principles. To further the integrity and objectivity of data in the financial statements, the Management of the Company has developed and maintains a system of internal accounting controls, which Management believes will provide reasonable assurance that financial records are reliable and form a proper basis for preparation of financial statements, and that assets are properly accounted for and safeguarded.

The Board of Directors carries out its responsibility for the financial statements in this annual report principally through its Audit Committee. The Audit Committee is appointed by the Board, and the majority of its members are outside and unrelated Directors. The Committee meets periodically with Management and the external auditors, to discuss internal controls over the financial reporting process and financial reporting issues, to make certain that each party is properly discharging its responsibilities, and to review quarterly reports, the annual report, the annual financial statements, and the external auditors' report. The Committee reports its findings to the Board for consideration when approving the financial statements for issuance to the shareholders. The Company's auditors have full access to the Audit committee, with and without Management being present.

These financial statements have been audited by the Company's auditors, Stout & Company LLP.

Sincerely,

Signed "Mark J. Redmond, Ph.D."
Chief Operating Officer

Signed "Edward A. Taylor"
Chairman

AUDITORS' REPORT

To the Shareholders of CEAPRO INC.

We have audited the consolidated balance sheets of Ceapro Inc. as at December 31, 2002 and 2001, and the consolidated statements of income (loss), deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's Management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by Management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2002 and 2001, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Edmonton, Canada
February 14, 2003

Signed "Stout & Company LLP"
Chartered Accountants

Financial Statements

CEAPRO INC. CONSOLIDATED BALANCE SHEETS

Years Ended December 31

	2002	2001
ASSETS		
CURRENT ASSETS		
Cash	\$ 25,392	\$ 50,807
Accounts receivable	274,868	79,880
Inventories	56,817	86,811
Prepaid expenses	14,759	55,091
	371,836	272,589
PROPERTY AND EQUIPMENT (note 5)	273,511	100,737
	\$ 645,347	\$ 373,326
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 453,725	\$ 521,867
Loans payable (note 6)	20,123	20,123
Current portion of convertible debentures	42,498	51,649
Current portion of long-term debt	105,998	30,354
	622,344	623,993
CONVERTIBLE DEBENTURES (note 7)	371,018	796,246
LONG-TERM DEBT (note 8)	222,338	31,368
ROYALTIES PAYABLE (note 16)	82,616	59,023
	1,298,316	1,510,630
SHARE CAPITAL AND DEFICIT		
SHARE CAPITAL (note 9)	1,394,706	45,961,622
DEFICIT	(2,047,675)	(47,098,926)
	(652,969)	(1,137,304)
	\$ 645,347	\$ 373,326

Going concern (note 2)

See accompanying notes

Approved On Behalf Of The Board

Signed "Edward A. Taylor"
Director

Signed "David B. Harvey"
Director

CEAPRO INC.

CONSOLIDATED STATEMENTS OF INCOME (LOSS)

Years ended December 31

	2002	2001
Sales (note 11)	\$ 1,511,512	\$ 1,149,443
Cost of goods sold	754,129	743,414
Gross margin	757,383	406,029
Royalties and licenses	114,739	—
	872,122	406,029
Expenses		
Sales and marketing	245,560	190,638
General and administration	568,545	683,268
Interest on convertible debentures	88,122	118,819
Interest on long-term debt	5,434	6,787
Amortization	23,567	24,253
	931,228	1,023,765
Loss from operations	(59,106)	(617,736)
Other (income) expenses		
Research and product development	259,061	205,887
Other income (note 12)	(433,941)	(477,520)
	(174,880)	(271,633)
Income (loss) before income taxes	115,774	(346,103)
Income taxes - current	1,391,854	—
Income tax reduction as a result of applying non-capital losses carried forward against current year taxable income	(1,391,854)	—
NET INCOME (LOSS) FOR THE YEAR	\$ 115,774	\$ (346,103)
Net income (loss) per share (note 14)		
Basic	\$ 0.004	\$ (0.012)
Diluted	\$ 0.004	\$ (0.012)

Going concern (note 2)

See accompanying notes

CEAPRO INC.

STATEMENTS OF DEFICIT

Years ended December 31

	2002	2001
Deficit at beginning of year		
As previously reported	\$ (47,098,926)	\$ (46,720,442)
Adjustment to deficit at beginning of year for prior years effect of change in method of accounting for stock based compensation (note 4(b))	—	(32,381)
As restated	(47,098,926)	(46,752,823)
Reduction of stated capital and deficit (note 9(c))	44,935,477	—
Net income (loss) for the year	115,774	(346,103)
DEFICIT AT END OF YEAR	\$ (2,047,675)	\$ (47,098,926)

Going concern (note 2)

See accompanying notes

CEAPRO INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31

	2002	2001
OPERATING ACTIVITIES		
Net income (loss) for the year	\$ 115,774	\$ (346,103)
Add items not affecting cash		
Amortization	23,567	24,253
Settlement of accounts payable and loans payable	(38,702)	(190,834)
Conversion of deferred salaries and directors' fees to stock based compensation	—	(148,418)
Conversion of debentures and debenture interest to royalty interest	(122,400)	—
Stock based compensation	25,137	124,133
	3,376	(536,969)
Changes in non-cash working capital items		
Accounts receivable	(194,988)	(9,518)
Inventories	29,994	(23,176)
Prepaid expenses	40,332	(46,194)
Accounts payable and accrued liabilities	18,567	(112,396)
	(106,095)	(191,284)
	(102,719)	(728,253)
INVESTING ACTIVITIES		
Purchase of property and equipment	(196,341)	(11,411)
FINANCING ACTIVITIES		
Decrease in loans payable	—	(15,000)
Proceeds from convertible debentures	—	642,704
Increase (decrease) in long-term debt	232,052	(17,932)
Increase in royalties payable	41,593	59,023
Proceeds from exercise of options	—	84,000
	273,645	752,795
(Decrease) increase in cash	(25,415)	13,131
Cash at beginning of year	50,807	37,676
CASH AT END OF YEAR	\$ 25,392	\$ 50,807

Going concern (note 2)

Supplementary information:

Interest paid	\$ 81,513	\$ 115,085
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See accompanying notes

1. NATURE OF BUSINESS OPERATIONS

Ceapro Inc. (the "Company") was incorporated under the Canada Business Corporations Act and is listed on the TSX Venture Exchange. The Company's primary business activities relate to the marketing and development of various health and wellness products and technology relating to oat extracts.

2. GOING CONCERN ASSUMPTION

These consolidated financial statements have been prepared on a going concern basis which presumes the realization of assets and discharge of liabilities in the normal course of business for the foreseeable future. However, the Company has in the past experienced significant operating losses and its ability to continue operations is dependent upon continuing to achieve profitability or securing additional debt or equity financing. The Company is economically dependent on the distributors of its products to maintain and expand the volume of product sales to existing and new customers. The use of Canadian generally accepted accounting principles that are applicable to a going concern may be inappropriate because there is significant doubt about the appropriateness of the going concern assumption.

These consolidated financial statements do not give effect to adjustments to the amounts and classifications of assets and liabilities that would be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and discharge its liabilities and commitments at amounts different from those in the accompanying consolidated financial statements.

3. ACCOUNTING POLICIES**(a) Use of estimates**

The preparation of consolidated financial statements in conformity with Canadian generally accepted accounting principles requires Management to make estimates and assumptions that affect the reported amounts of the assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. The significant areas requiring the use of Management estimates relates to amortization of property and equipment, the interest rate and stock volatility used in determining stock based compensation and the interest rate used in determining the equity component of the convertible debentures. Actual results could differ from those estimates.

(b) Principles of consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Ceapro Technology Inc.

(c) Inventories

Inventory of raw materials is valued at the lower of cost and replacement cost on a first-in, first-out basis. Inventory of work-in-progress and finished goods is valued at the lower of cost and net realizable value on a first-in, first-out basis.

(d) Property and equipment

Property and equipment are recorded at cost and are amortized over their estimated useful lives as follows:

Office and manufacturing equipment	20% declining balance
Computer equipment	30% declining balance
Manufacturing equipment under capital lease	20% declining balance

3. ACCOUNTING POLICIES (continued)

(e) Research and product development expenditures

Research costs are expensed when incurred. Product development costs are also expensed when incurred unless they are significant and meet generally accepted criteria for deferral. Costs are reduced by government grants and investment tax credits where applicable.

(f) Foreign currency

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at year end exchange rates and non-monetary assets at the exchange rates prevailing when the assets were acquired. Foreign currency denominated revenue and expense items are translated at the rate of exchange in effect at the time of the transaction. Foreign currency gains or losses arising on translation are included in income.

(g) Income taxes

Income taxes are accounted for by the asset and liability method whereby future tax assets and liabilities are recognized for the future tax consequences attributable to the differences between the financial statement carrying amounts of existing assets and liabilities and their respective income tax bases.

(h) Lease obligations

Leases are classified as capital or operating leases. A lease that transfers substantially all of the benefits and risks incidental to the ownership of property is classified as a capital lease. At the inception of a capital lease, an asset and an obligation are recorded at an amount equal to the lesser of the present value of the minimum lease payments and the property's fair value at the beginning of the lease. All other leases are accounted for as operating leases wherein payments are expensed as incurred.

(i) Government assistance

Government assistance is periodically applied for under available government incentive programs. Government assistance relating to research and development expenditures are recorded as a reduction of the expenditures when received.

(j) Investment tax credits

Investment tax credits relating to qualifying scientific research and experimental development expenditures are accrued provided there is reasonable assurance that the credits will be realized. When recorded, the investment tax credits are accounted for as a reduction of the related expenditures.

(k) Net income (loss) per share

Net income (loss) per share is calculated based on the weighted average number of shares outstanding during the year. Diluted net income (loss) per share reflects the assumed conversion of all dilutive securities using the treasury stock method.

(l) Stock based compensation

Stock based compensation of employees and Directors is recorded in accordance with the fair value based method.

4. CHANGE IN ACCOUNTING POLICIES

(a) Effective January 1, 2002, the Company adopted the new Canadian Institute of Chartered Accountants' Handbook Section #1650 – Foreign Currency Translation. The new standard requires that gains and losses from translation of long-term monetary items are no longer deferred and amortized, but are charged to income currently. The Company has adopted these recommendations retroactively, with no restatement of prior periods. This change had no effect on the prior year's financial statements.

(b) Effective January 1, 2001, the Company has adopted the new Canadian Institute of Chartered Accountants' Handbook Section #3870 – Stock Based Compensation. The policy was applied without restatement of prior period financial statements. The deficit at January 1, 2001 was increased by \$32,381 and the stock based compensation component of share capital was increased by \$32,381.

(c) Effective January 1, 2001, the Company has adopted the new Canadian Institute of Chartered Accountants Handbook Section #3500 – Earnings Per Share. The new standard requires the disclosure of the calculation of basic and diluted earnings per share, and the use of the treasury stock method for calculating the dilutive impact of convertible securities and stock options. There was no impact of the change on diluted loss per share for December 31, 2001.

5. PROPERTY AND EQUIPMENT

	2002		
	Accumulated		Net
	Cost	Amortization	Book Value
Office and manufacturing equipment	\$ 321,323	\$ 82,247	\$ 239,076
Computer equipment	107,069	87,354	19,715
Manufacturing equipment under capital lease	29,810	15,090	14,720
	\$ 458,202	\$ 184,691	\$ 273,511

	2001		
	Accumulated		Net
	Cost	Amortization	Book Value
Office and manufacturing equipment	\$ 132,041	\$ 68,900	\$ 63,141
Computer equipment	100,010	80,814	19,196
Manufacturing equipment under capital lease	29,810	11,410	18,400
	\$ 261,861	\$ 161,124	\$ 100,737

During the year ended December 31, 2002, the Company made a \$270,000 (\$175,000 USD) commitment to purchase a reverse osmosis unit for use in its manufacturing operations. At December 31, 2002, office and manufacturing equipment includes \$174,213 representing advances made to the manufacturer of the equipment under construction at year end. The purchase agreement requires that the equipment be delivered to the Company's manufacturing facility by February 28, 2003 and that the balance of the purchase price is to be paid by March 31, 2003. The financing necessary to secure the purchase of the equipment is being provided by a \$200,000 loan (\$174,213 advanced to December 31, 2002 - see note 8) and a \$70,000 letter of credit provided by a Director of the Company.

6. LOANS PAYABLE

	2002	2001
10% loan payable to an employee	\$ 2,500	\$ 2,500
12% loan payable to a shareholder	17,623	17,623
	\$ 20,123	\$ 20,123

The loans payable are unsecured, have no fixed terms of repayment, and are due on demand.

7. CONVERTIBLE DEBENTURES

	2002						2001
	Series 1	Series 2	Series 3	Series 4	Series 5	Total	Total
Interest rate	12%	12%	12%	10%	10%		
Due date	October, 2003	February, 2004	July, 2004	February, 2005	April, 2005		
Original face value issued	\$ 30,000	\$ 25,000	\$ 296,536	\$ 340,064	\$ 230,633	\$ 922,233	\$ 1,402,342
Converted to royalty interest	(10,000)	—	(61,270)	(20,000)	—	(91,270)	—
Converted to shares	—	—	—	(255,564)	(128,877)	(384,441)	(480,424)
Remaining face value	20,000	25,000	235,266	64,500	101,756	446,522	921,918
Equity component	(1,166)	(1,336)	(13,263)	(4,571)	(12,670)	(33,006)	(74,023)
	18,834	23,664	222,003	59,929	89,086	413,516	847,895
Less current portion	18,834	23,664	—	—	—	42,498	51,649
	\$ —	\$ —	\$ 222,003	\$ 59,929	\$ 89,086	\$ 371,018	\$ 796,246

Conversion rate per common share	\$ 1.00	\$ 0.80	\$ 1.05	\$ 0.30	\$ 0.40		
Conversion date to	October, 2003	February, 2003	July, 2003	February, 2003	April, 2003		
Conversion rate per common share		\$ 1.00	\$ 1.40	\$ 0.60	\$ 0.75		
Conversion date to		February, 2004	July, 2004	February, 2004	April, 2004		
Conversion rate per common share				\$ 0.90	\$ 1.00		
Conversion date to				February, 2005	April, 2005		

Debenture interest payments in default at December 31, 2002 amounted to \$41,378 (2001 - \$11,210)

The convertible debentures are unsecured.

8. LONG-TERM DEBT

	2002	2001
Capital lease obligation, payable \$1,586 per month, due October, 2003.		
Manufacturing equipment under capital lease provided as security.	\$ 15,860	\$ 34,885
Less amount representing interest at 9.5%.	672	2,984
	15,188	31,901
Loan, payable \$354 per month, principal and interest at 8.50%, secured by manufacturing equipment, due October, 2003.	3,409	7,197
Loan, payable \$3,113 per quarter, principal and interest at prime plus 2%, unsecured, due December, 2003.	11,802	22,624
Loan, payable \$10,000 per quarter, principal only, unsecured, due December, 2005.	122,332	—
Loan, payable \$4,006 per month, principal and interest at 7.75%, secured by specific manufacturing equipment and a general security agreement, due September, 2005.	174,213	—
Loan, payable \$120 per month, principal and interest at 7%, secured by manufacturing equipment, due December, 2003.	1,392	—
	328,336	61,722
Less current portion	105,998	30,354
	\$ 222,338	\$ 31,368

Estimated principal payments due in the next three years are as follows:

2003	\$ 105,998
2004	76,954
2005	165,602
	\$ 348,554

The future minimum loan payments include advances of \$20,218 relating to the loan payable of \$174,213 received subsequent to December 31, 2002.

9. SHARE CAPITAL

(a) Authorized

Unlimited number of Class A voting common shares

Unlimited number of Class B non-voting common shares

(b) Issued - Class A common shares

	2002		2001	
	Number of shares	Amount	Number of shares	Amount
Balance at beginning of year	29,360,122	\$ 45,961,622	22,694,626	\$ 44,329,465
Changes during the year:				
Reduction of stated capital	—	(44,935,477)	—	—
Exercise of options	431,250	19,050	375,000	84,000
Conversion of debentures	2,419,736	384,441	1,887,233	480,424
(Decrease) increase in equity component of convertible debentures	—	(41,017)	—	30,565
Equity component of stock-based compensation, net	—	6,087	—	156,514
Settlement of accounts payable	—	—	4,403,263	880,654
	32,211,108	\$ 1,394,706	29,360,122	\$ 45,961,622

9. SHARE CAPITAL (continued)

(c) On July 4, 2002, the Company's shareholders approved a resolution to reduce the Company's stated capital and accumulated deficit by \$44,935,477 respectively to reflect accurately the current realizable assets of the Company and the cumulative results of its operations from the time its debts were restructured and the current ongoing business was re-established.

(d) The Company has a stock option plan under which employees, Directors, Officers, and consultants are eligible to receive stock options. The options granted under the current stock option plan vest over an eighteen month period and have a maximum term of five years. Under the stock option plan, the Company is authorized to grant a maximum of 5,000,000 options.

The Company accounts for options granted under this plan in accordance with the fair value based method of accounting for stock-based compensation. The application of the fair value based method requires the use of certain assumptions regarding the risk-free market interest rate, expected volatility of the underlying stock and life of the options. The risk-free rate used was 3.18%, the expected volatility was 3.54% which was based on two years of trading activity for the Company's stock from March 2000 to March 2002, and the expected life of the options was 5 years. The compensation expense recorded during the current year was \$25,137 (2001 - \$124,133 and \$32,381 recorded as a charge to the opening deficit).

A summary of the status of the Company's stock option plan as at December 31, 2002 and 2001 and changes during the years ending on those dates is as follows:

	2002		2001	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding at beginning of year	2,932,500	\$ 0.20	2,251,667	\$ 0.32
Granted	1,110,716	0.17	1,372,500	0.20
Cancelled/expired	—	—	(316,667)	1.00
Exercised	(431,250)	0.18	(375,000)	0.22
Outstanding at end of year	3,611,966	0.19	2,932,500	0.20
Exercisable at end of year	2,435,804	0.20	1,790,625	0.20

The following table summarizes information about stock options outstanding at December 31, 2002 and 2001:

		2002	2001
	Year of Expiration	Exercise Price	Number of Options
	2007	\$ 0.17	1,110,716
	2006	\$ 0.19	910,000
	2006	\$ 0.20	462,500
	2005	\$ 0.12	735,000
	2004	\$ 0.25	800,000
	2004	\$ 1.00	25,000
			3,611,966
			2,932,500

(e) During the year ended December 31, 2001 the Company and certain senior employees and a former senior employee agreed to convert deferred salaries to stock based compensation. Under the terms of the agreements, the Company is obliged to pay these employees up to \$325,000 contingent upon the employees exercising the employee stock options to a value of \$325,000. The agreements expire in 2003 and 2004. During the year ended December 31, 2002 a senior employee exercised 431,250 stock options at exercise prices ranging from \$0.12 to \$0.20. Proceeds of \$19,050 representing the fair value of the options has been transferred from the equity component of stock based compensation to share capital. In addition, the Company may be required to issue up to 500,000 Class A common shares at market value to a maximum of \$233,000 for nil consideration until December 21, 2004.

10. CONTINGENCIES AND COMMITMENTS

(a) On May 5, 1998, control of the Company's wholly owned subsidiary, Canamino Inc. ("Canamino") was assumed by Canamino's Class B preferred shareholder, the Saskatchewan Government Growth Fund Ltd. ("SGGF"), due to default of payment of dividends due in October, 1997, and the failure to redeem 500,000 Class B preferred shares as required under the subscription agreement. Control was gained through the assumption of 51% of the voting entitlement attached to the Class A common shares.

On March 22, 2002, the Company filed an Amended Statement of Claim ("the claim") with the Court of Queen's Bench of Saskatchewan. With the filing in Saskatchewan, the Company stayed its action in the Court of Queen's Bench of Alberta which was originally filed in December, 1999. The principal defendant in the claim is SGGF. The claim alleges that the Company has suffered damage to goodwill and other property, including its investment in Canamino. The claim asks for damages of \$64,740,000. At December 31, 2002 and 2001, the status of the claim is undeterminable.

During the year ended December 31, 2002, the Company received \$210,000 (2001 - \$120,000) from the sale of a 8.4% (2001 - 4.8%) interest in the net proceeds, if any, from the above noted lawsuit. As at December 31, 2002 investors are entitled to 13.2% of the net proceeds, if any, from the lawsuit to a maximum of \$3,300,000.

During the year ended December 31, 2002, a Director agreed to invest (by reimbursement of direct legal costs) up to \$250,000 to purchase an interest in the net proceeds, if any, from the above noted lawsuit. The Director is therefore potentially entitled up to 10% of the net proceeds, if any, from the lawsuit, to a maximum \$2,500,000. During the year ended December 31, 2002, the Director reimbursed the Company for \$96,725 of legal costs. The Director is therefore currently entitled to a 3.87% interest in the net proceeds, if any, from the lawsuit to a maximum of \$967,250.

(b) During the year ended December 31, 2002, the Company earned \$172,401 representing the sale of a 1.724% royalty interest in the Company's future sales and licensing of oat based active ingredients and animal health products. Maximum royalties payable are two times the original investment or \$344,802 which represents a 1.724% interest in \$20,000,000 of certain future sales, royalties, and licensing revenues.

(c) During the year ended December 31, 2001, the Company entered into an employment termination agreement with a former employee. The agreement provides that should the Company realize proceeds in excess of \$4,000,000 by December 21, 2004 from the lawsuit described in note 10(a) or should the Company complete a partnership agreement or major financing agreement in excess of \$4,000,000 by December 21, 2004, a \$200,000 severance amount would be payable to the former employee.

10. CONTINGENCIES AND COMMITMENTS (continued)

(d) In the normal course of operations the Company may be subject to litigation and claims from customers, suppliers and former employees. Management believes that adequate provisions have been recorded in the accounts where required. Although it is not possible to estimate the extent of potential costs, if any, Management believes that the ultimate resolution of such contingencies would not have a material adverse effect on the financial position of the Company.

(e) Effective January 1, 2002, the Company modified its existing lease agreement for its office premises. The lease requires the Company to pay an annual base rent of \$39,774 per year plus its share of maintenance and operating costs until expiry December 31, 2003.

11. SALES

Substantially all sales are export sales.

12. OTHER INCOME

Other income is comprised as follows:

	2002	2001
Settlement of accounts and loans payable	\$ 38,702	\$ 190,834
Sale of royalty interests	172,401	—
Sale of lawsuit interests	210,000	120,000
Conversion of deferred salaries and directors' fees to stock-based compensation	—	148,418
Foreign exchange gains and other	12,838	18,268
	\$ 433,941	\$ 477,520

13. RELATED PARTY TRANSACTIONS

Related party transactions during the years not otherwise disclosed in these consolidated financial statements are as follows:

	2002	2001
Interest expense paid or payable to employees and directors	\$ 10,935	\$ 10,888
Royalties earned by employees and directors	\$ 5,967	\$ —
Sale of royalty interests to employees and directors	\$ 96,316	\$ —
Amounts payable to employees and directors included in accounts payable and accrued liabilities	\$ 102,936	\$ 107,830
Convertible debentures payable to employees and directors	\$ 45,643	\$ 81,386
Amount receivable from a director included in accounts receivable	\$ 49,489	\$ —

These transactions are in the normal course of operations and are measured at the exchange amount which is the amount of consideration established and agreed to by the related parties.

14. BASIC AND DILUTED LOSS PER SHARE

The following table outlines the calculation of basic and diluted income (loss) per share:

	2002	2001
Numerator		
Numerator for basic and diluted net income (loss) per share:		
Net income (loss) for the year	\$ 115,774	\$ (346,103)
Denominator		
Denominator for basic loss per share:		
Weighted-average number of shares outstanding during the year	31,074,160	27,145,366
Effect of potentially dilutive securities:		
Stock options	1,464,669	—
Denominator for diluted net income (loss) per share:		
Adjusted weighted-average number of shares outstanding during the year	32,538,829	27,145,366
Basic net income (loss) per share	\$ 0.004	\$ (0.012)
Diluted net income (loss) per share	\$ 0.004	\$ (0.012)

The dilutive effect of outstanding stock options on net income (loss) per share is based on the application of the treasury stock method. Under the treasury stock method, the proceeds from the exercise of options is assumed to be used to purchase common shares.

For the year ended December 31, 2002, the following options were not included in the calculation of diluted net income (loss) per share as the exercise price exceeded the average trading value of the shares: 1,846,769 options for common shares with an exercise price between \$0.17 and \$1.00. Convertible debentures were not included in the calculation of diluted net income (loss) per share as the result would be anti-dilutive.

For the year ended December 31, 2001, the following options were not included in the calculation of diluted net income (loss) per share as the exercise price exceeded the average trading value of the shares: 825,000 options for common shares with an exercise price between \$0.25 and \$1.00. All remaining outstanding options and all convertible debentures were excluded from the calculation of net income (loss) per share as the result would be anti-dilutive.

15. INCOME TAXES

(a) Non-capital losses

The Company has accumulated non-capital losses carried forward for income tax purposes of approximately \$6,183,000 the benefit of which has not been reflected in these consolidated financial statements. These losses may be applied against future taxable income within the limitations prescribed by the Income Tax Act and expire as follows:

2003	\$ 365,000
2004	2,155,000
2005	1,748,000
2006	661,000
2007	683,000
2008	571,000
	<u>\$ 6,183,000</u>

15. INCOME TAXES (continued)

(b) Net capital losses

The Company has net capital losses of approximately \$6,807,000, which can be carried forward indefinitely to offset future taxable capital gains.

(c) Scientific research and experimental development (SR & ED)

The Company has an accumulated SR & ED expenditure pool of approximately \$1,506,000, which can be carried forward indefinitely to be applied against future taxable income. The Company has accumulated SR & ED investment tax credits of approximately \$285,000. These credits may be applied against future federal income taxes payable and expire as follows:

2004	\$ 25,300
2005	65,800
2006	37,900
2007	119,000
2008	16,000
2009	400
2012	20,600
	\$ 285,000

(d) Temporary differences

A future income tax asset reflects the net effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's future income tax assets are as follows:

Deductible temporary differences:

	2002	2001
Non-capital losses and SR & ED expenditures carried forward	\$ 7,689,000	\$ 11,236,000
Net capital losses carried forward	3,404,000	3,404,000
Undepreciated capital cost for tax purposes in excess of net book value	287,000	263,000
Tax value of intangible assets in excess of amounts recorded in financial statements	908,000	3,065,000
	\$ 12,288,000	\$ 17,968,000

For consolidated financial statement purposes, no future income tax asset has been recorded at December 31, 2002 and 2001 as it is not more likely than not to be realized.

(e) Income tax rate reconciliation

The reconciliation of the Company's effective income tax rate for the years ended December 31, 2002 and 2001 are as follows:

	2002	2001
Federal income tax rate, net of federal abatement	25.00%	27.00%
Provincial income tax rate	13.12	14.00
	38.12	41.00
Federal surtax	1.12	1.12
Applicable tax rate	39.24	42.12
Income tax rate reduction as a result of current year loss incurred for income tax purposes	(–)	(42.12)
Income tax rate reduction as a result of applying non-capital losses carried forward against current year taxable income	(39.24)	(–)
Effective income tax rate	– %	– %

16. ROYALTIES PAYABLE

In the year ended December 31, 1999, the Company received financial assistance in the amount of \$164,882 for the research and development of new products, patents and markets. The Company is obligated to pay a 5% royalty (to a maximum of \$329,763) on sales generated from products developed using these funds. Royalties payable relating to sales in 2000, 2001 and 2002 are due \$2,000 per month commencing March 2003. Royalties payable within the next fiscal year are included in accounts payable. All royalties relating to sales occurring after January 1, 2003 are due 60 days after each calendar quarter commencing March 31, 2003. As at December 31, 2002 a total of \$100,616 (2001 - \$59,023) royalties have been accrued or paid.

17. FINANCIAL ASSISTANCE

During the year ended, December 31, 2002, the Company received financial assistance in the amount of \$13,167 in support of research and development related to AccuScreen, a diagnostic aid for the early detection of Type II diabetes and impaired glucose tolerance. No royalties are payable in respect of this financial assistance.

18. SUBSEQUENT EVENTS

Subsequent to December 31, 2002, \$43,346 of convertible debentures and unpaid debenture interest were converted to royalty interests and \$7,500 were converted to 50,000 common shares.

19. FINANCIAL INSTRUMENTS

The estimated fair value of cash, accounts receivable and accounts payable and accrued liabilities, loans payable, and current portions of convertible debentures and long-term debt approximates their carrying value due to their short-term nature.

The fair value of long-term debt, convertible debentures, and royalties payable are estimated to approximate their carrying value using the Company's incremental borrowing rate or discounted cash flow analysis for similar types of borrowing arrangements.

The Company operates internationally, giving rise to exposure to market risks from changes in foreign exchange rates in relation to the resulting accounts receivable and accounts payable and accrued liabilities.

20. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with financial statement presentation adopted for the current year.

Information for Investors

Directors

Edward Taylor, Chairman
Donald Byers
David Harvey
Donald Oborowsky
John Yewchuk
John Zupancic

Executive Officer

Mark J. Redmond, Ph.D.
Chief Operating Officer and
Chief Scientific Officer

Head Office

4046 RTF University of Alberta
8308 - 114 Street, Edmonton, Alberta T6G 2E1
Tel: (780) 421-4555
Fax: (780) 421-1320
Website: www.ceapro.com
E-mail: info@ceapro.com

Registered Office

2900 Manulife Place
10180 - 101 Street, Edmonton, Alberta T5J 3V5

Auditors

Stout & Company LLP
1900 College Plaza
8215 - 112 Street, Edmonton, Alberta T6G 2C8

Corporate Counsel

Fraser Milner Casgrain LLP
2900 Manulife Place
10180 - 101 Street, Edmonton, Alberta T5J 3V5

Securities Counsel

Bryan & Company
2600 Manulife Place
10180 - 101 Street, Edmonton, Alberta T5J 3Y2

Chartered Bank

TD Canada Trust
148 Edmonton Centre
10205 - 101 Street, Edmonton, Alberta T5J 2Y8

Stock Information

Listed on the TSX Venture Stock Exchange
Symbol: CZO

Transfer Agent & Registrar

Computershare Trust Company of Canada
Suite 970, 10303 Jasper Avenue
Edmonton, Alberta T5J 3N6
Tel: (780) 448-7598
Fax: (780) 426-4032

Change of Address

Registered Shareholders should notify the Company's Transfer Agent and Registrar at the address set out above.

Beneficial Owners should contact their respective brokerage firm to give notice of a change of address.

Financial Calendar

The Company's year-end is December 31.
The Annual Report is mailed in May.
Quarterly Reports are mailed in May, August, and November.

Equal Opportunity Employer

Ceapro Inc. is an equal opportunity employer and seeks to attract and retain the best-qualified people regardless of race, religion, national origin, gender, sexual orientation, age, or disability.

Stock Information

Listed on the TSX Venture Stock Exchange
Symbol: CZO

Transfer Agent & Registrar

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Equal Opportunity Employer

Ceapro Inc. is an equal opportunity employer and seeks to attract and retain the best-qualified people regardless of race, religion, national origin, gender, sexual orientation, age, or disability.

This annual report may contain forward-looking statements. The Company is including this cautionary statement identifying important factors that could cause the Company's actual results or plans to differ materially from those projected in such forward-looking statements. Various factors, many of which are beyond the control of the Company, which could cause actual results to differ from the projections include those predicting the timing of clinical trials; the availability or adequacy of financing; the manufacture, distribution, sales, and marketing of commercial products; the efficacy of products; receiving regulatory clearances for products; being able to adequately protect the Company's proprietary information and technology from competitors; and assuring that the products of the Company, if successfully developed and commercialized following regulatory approval, are not rendered obsolete by products or technologies of its competitors. Although the Company believes that the forward-looking statements contained herein are reasonable, it can give no assurance that the Company's expectations will be met. All forward-looking statements are expressly qualified in their entirety by this cautionary statement.

Nature **Enhancing** Life®

Ceapro Inc.

4046 RTE, University of Alberta
8308 – 114th Street, Edmonton, AB
Canada T6G 2E1
Tel: 1.780.421.4555
Fax: 1.780.421.1320

www.ceapro.com